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**A. GENERAL INTERNAL CONTROL CONSIDERATIONS****A.01 GENERAL**

Internal accounting control is generally defined as the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:

- Transactions are executed in accordance with management's general or specific authorization.
- Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.
- Access to assets is permitted only in accordance with management's authorization.
- The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

For a business official, the system of internal accounting controls in place in a district depends upon several factors. These factors include, but are not limited to, the organization and size of the district, the extent of computerization and the number of personnel available to implement the system. It is important for a business official to recognize that while a system of internal control is essential in order to achieve the objectives noted above, the cost should be evaluated in relation to the benefits expected to be derived.

Suggested internal accounting controls are included in the following sections and can be used as a guide in establishing a system for a district. Not all procedures are applicable for every district.

**A.02 CASH ON HAND AND IN BANKS****REVIEW OF INTERNAL CONTROL**

Cash and bank accounts in use should be only those authorized by the school board and use should be for authorized purposes. When necessary, separate bank accounts should be established for certain activities of the district as determined by statute or regulation.

**a) CASH COLLECTIONS**

- Procedures should be adequate to insure collection, recording, and deposit of cash received from all sources.
- Pre-numbered receipt forms should be issued at the point of original collection of cash.
- Receipts should be deposited intact on a timely basis (preferably daily).
- Facilities should be adequate to protect undeposited cash receipts.
- Incoming checks should be restrictively endorsed as soon as received.

**b) CASH DISBURSEMENTS**

- Adequate records should be maintained for all cash disbursements.
- All disbursements should be made by check except those few made from petty cash.
- Checks should be pre-numbered and printed on protected paper. Additionally, a check protector may be used for added security.
- Voided checks should be kept on file and defaced to prevent reuse.
- Blank checks should be kept in a safe place with access limited to those authorized to prepare checks.
- Disbursements should be made only on the basis of approved vouchers with supporting documentation attached.
- Supporting data and approvals on vouchers should be reviewed by the check signer at the time of signature or by supervisory personnel if a signature plate is used.

- Supporting documentation should be marked “paid” to avoid duplicate payments.
- If a signature plate is used, access to it should be limited to authorized personnel.
- Checks should not be signed unless all pertinent data are included.

**c) RECONCILIATION OF BANK ACCOUNTS**

- Bank accounts should be reconciled monthly.
- Reconciliations should be performed by someone other than the persons who participate in the collection of disbursement of cash or who sign checks.
- Checks outstanding for an undue period of time should be investigated (by correspondence, etc.).
- If payment is stopped, an entry should be made restoring such items to cash. If still unclaimed after six years, a district must remit a like amount to the State Board of Escheats (they may do so after two years).

**d) PETTY CASH**

- Petty cash disbursements made from working funds should be maintained on an imprest basis.
- Cash collections should not be mingled with the petty cash fund unless monitored closely.
- Responsibility for the fund should be vested in only one person.
- Petty cash disbursements should be evidenced by supporting data that is properly approved.
- When a petty cash fund is reimbursed, a notation of payment should be made on the supporting data to prevent duplicate payment.
- The petty cash bank account, if any, should be reconciled by an employee independent of the person responsible for the fund.

**A.03 INVESTMENTS****REVIEW OF INTERNAL CONTROL**

- Investments in securities should be in conformance with the regulations prescribed by law for investments by school districts.
- Security transactions should be in accordance with the board policy.
- Investments should be registered in the name of the school district.
- Protective measures should be in place to insure adequate safeguarding of investments.
- If investments are kept in a safety deposit box, it should be necessary for more than one person to be present to open the box. Additionally, such persons should be independent of record keeping.
- A record should be kept of each security, including certificate number.
- Procedures should be in place governing the recording of interest and dividends.
- All investments should be properly reflected in both the records and the statements of the district.

**A.04 REVENUES AND ACCOUNTS RECEIVABLE****REVIEW OF INTERNAL CONTROL**

- Pre-numbered receipt forms should be used for cash collections and all numbers should be accounted for. Copies (including originals) of voided receipts should be retained.
- Charges arising from the use of school facilities should be verified by reference to board approved rate schedules, if such a policy has been approved.

**A.05 INVENTORIES**

Bulletin 1022 (Revised) recommends an inventory procedure where appropriate. The differentiation between supplies and equipment has been set forth in this bulletin. The determination as to whether purchases should be inventoried is a determination that must be made by the district. The following internal control points are directed only to those items which should be inventoried.

**REVIEW OF INTERNAL CONTROL**

- Procedures should be established identifying types of items that should be included in inventory and prescribing physical controls over the safeguarding of inventories.
- Access to inventories should be limited to authorized personnel.
- Quantity, quality, and condition of goods received should be verified at the time of receipt.
- Pre-numbered receiving reports should be used to document receipts and should be matched with invoices prior to payment.
- Approved requisitions should be used for withdrawals from inventory.
- A record of all inventory on hand should be maintained.
- Periodic physical inventories should be taken and reconciled to the record of inventory on hand, making adjustments if required.



**A.06 INSURANCE COVERAGE**

**REVIEW OF INTERNAL CONTROL** - All persons who handle district funds should be bonded including; school board members, employees, and students.

- Insurance coverage should be reviewed periodically to assess adequacy of coverage.
- The comprehensive liability policy should protect the school board, employees, and volunteers.
- Insurance dividends and premium refunds should be recorded properly.

**A.07 EXPENDITURES****REVIEW OF INTERNAL CONTROL**

- Approved purchase orders should be used for all purchases in accordance with district policy.
- Receiving documents should be attached to and filed with applicable invoices.
- Bids should be obtained when required by statute or district policy.
- Internal controls should exist to prevent duplicate payment of invoices.
- Whenever available, school district tax exemptions should be utilized.
- Claims for refunds should be filed within the statutory time limit.
- Travel expenses should be paid in conformity with the rates set by the school board.
- Whenever possible, the district should take advantage of cash discounts.
- Employee contracts should be formally approved by the board and documented in the minutes setting forth the salaries and conditions of employment.
- Compensation paid to board members and officers should be formally approved.
- Changes in employment status should be properly authorized, approved and documented in personnel files.
- Hours worked, overtime hours, and other special benefits should be approved prior to distribution of payroll.
- Procedures should be in place to document vacation, holiday and sick days taken.

**A.08 LIABILITIES****REVIEW OF INTERNAL CONTROL**

The district should have procedures for recording, at least at year-end, the following types of liabilities:

- Accounts payable.
- Payrolls earned but not paid.
- Payroll withholdings not paid.
- Deferred revenues as yet unearned.
- Funds held due to other parties.
- Liabilities for uninsured losses; i.e., workers compensation claims.
- Retainers payable on contracts in process.

**A.09 CATEGORICAL GRANT PROGRAMS**

Many districts operate programs for specific purposes funded by State and Federal awards. Revenues recorded under these programs are restricted for use only in the program and, accordingly, should not be included with general revenues such as State School Aid which may be used for many purposes. In order to account to the grantors for the proper expenditures of these funds, it is necessary that a separate group of accounts within the General Fund be established for each program. Funds should be expended in accordance with the budget and purposes of the grant. Reporting of the programs should be such that the grantor is able to identify in the comprehensive annual financial report, the revenues and expenditures applicable to the grant by function and object as is specified in the DS-4044 final expenditure report and in the program's budget.

The single audit report on Federal programs requires the grantee to report total Federal financial assistance awarded, received, and expended. (The current year should be disclosed separately from prior years.) For further detail regarding Single Audit Act requirements refer to section II, Subsection D, (overview) and the separate manual section devoted entirely to the Single Audit Act.

**B. INTERNAL CONTROL, OTHER THAN THE GENERAL FUND**

Internal control procedures noted in Part A should be in place for the Funds and Account Group listed in Part B in addition to control procedures noted in Part B.

**B.01 SCHOOL SERVICE, TRUST AND AGENCY FUNDS****REVIEW OF INTERNAL CONTROLS**

- Policies should be formally adopted relating to the following:
  - Profits
  - Losses
  - Balances, including negative balances.
  - Adequate internal controls should be maintained to document gains or losses.
  - Adequate records should be maintained documenting any restrictions on trust and agency balances established by donors or the board.

Transactions should be reviewed for conformance therewith.

**B.02 DEBT RETIREMENT FUND****REVIEW OF INTERNAL CONTROL**

- Separate bank accounts and accounting records should be maintained for each bond issue.
- Terms of the bond indenture should be monitored and complied with.
- Special transactions should be approved by appropriate authority, i.e., early retirement of bonds should be approved by the Michigan Municipal Finance Commission.
- A copy of qualification reports and project sheets should be filed in a secured location and held for the length of the bond.

**B.03 CAPITAL PROJECTS FUND****REVIEW OF INTERNAL CONTROL**

- Detailed records should be maintained of assets purchased/constructed with proceeds from bond issues.
- Revenue sources should be clearly defined.
- Procedures should be in place to insure all proceeds of new bond issues have been received and are properly accounted for.
- Expenditures should be made in compliance with the particular enabling authorization.
- Payments on new construction should be supported by architects certificates or other authorized supporting documentation.



**B.04 GENERAL FIXED ASSETS ACCOUNT GROUP****REVIEW OF INTERNAL CONTROLS**

- District records should be adequate for supporting insurance claims in the event of loss.
- Periodic inventories of property should be taken for insurance or other purposes. Differences between accounting records and inventory accounts should be investigated.
- Equipment should be properly identified as the property of the district.
- Procedures should be established for reporting items sold or otherwise disposed of. Such procedures should be sufficient to insure a proper accounting of any proceeds from disposal of property.
- The records and procedures for controlling property should be adequate to disclose loss or theft.
- Titles to equipment, motor vehicles, and school sites should be held in the name of the district. These documents should be kept in a safe place.

